

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

TABLE OF CONTENTS

Organization	1
Management Discussion and Analysis	2-5
Independent Auditor's Report	6-7
Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	8
Statement of Activities	9
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	10
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Net Position – Proprietary Fund Types	14
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund Types	15
Statement of Cash Flows – Proprietary Fund Types	16
Statement of Net Position – Fiduciary Fund Types	17
Notes to Financial Statements	18-35
Required Supplementary Information	
Budgetary Comparison Schedule	36
Schedule of Funding Progress – Other Post Employment Benefits Other Than Pensions	37
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	38-44
Report on Prior Audit Recommendations	45

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

Craig Sorensen

Mayor

CITY COUNCIL

DuWayne Ulrich
Kurt Knieval
Daniel Reddish
Sue Mays
Nate Lengacher
Shawn Truesdale

Council Member
Council Member
Council Member
Council Member
Council Member
Council Member

CITY OFFICIALS

Blaine Bradshaw
Gena Berry
John Vukonich

Attorney
Clerk / Treasurer
Public Works Director

TOWN OF PHILIPSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

As management of the Town of Philipsburg, Montana, we offer readers of the Town of Philipsburg's financial statements this narrative overview of the financial activities of the Town of Philipsburg for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal, the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The assets of the Town of Philipsburg exceeded its liabilities as of June 30, 2014 by \$2,963,047 (net position). This includes governmental funds and utility funds. The unreserved net position may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town of Philipsburg's total net position increased by \$49,253. This increase is attributable to an increase in Cash & Investments, and Depreciation.

Overview of the Financial Statements

The Management Discussion and Analysis document introduces the Town's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The Town also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Town's annual report includes two government-wide financial statements. These statements provide both the long-term and short-term information about the Town's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of this government-wide statement is the *Statement of Net Position*. This is the government-wide statement of position presenting information that includes all of the Town's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town as a whole is improving or deteriorating. Evaluation of the overall health of the Town would extend to other non-financial factors such as diversification of the taxpayer base or the condition of Town infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the Town's net assets changed during the current fiscal year. All current year revenues and expenses are concluded regardless of when we receive or pay out cash. An important purpose of the design of the statement of activities is to show the financial reliance of the Town's distinct activities or functions on revenues provided by the Town's taxpayers.

Both government-wide financial statements distinguish governmental activities of the Town that are principally supported by property taxes and from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public works, public health, social and economic services, housing and community development and culture and recreation. Business-type activities primarily include the water, sewer, and electric.

The internal service funds are reported with governmental activities at the government-wide financial reporting level.

The government-wide financial statements are presented on the pages indicated in the table of contents.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The Town has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Town's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives.

The basic governmental fund financial statements are presented on the pages indicated in the table of contents.

Proprietary funds or Enterprise Funds are reported in the fund financial statements and generally report services for which the Town charges customers a fee. These enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Town for a variety of services, primarily utility services. The basic proprietary fund financial statements are presented on the pages indicated in the table of contents.

Fiduciary funds are classified as Agency Funds. These funds are reported on the page indicated in the table of contents.

Notes to the Basic Financial Statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements begin on page indicated in the table of contents

Budgetary Highlights: The Clerk is paying particular attention to the budget. She continues to fine tune how every single expenditure is recorded. The more accurate the posting process is, the easier the budgetary process will be. We had no significant differences in our budgeted expenses to our actual expenses.

GENERAL GOVERNMENT

Total Assets

Total assets in the governmental activities decreased by \$69,458 and decreased in Business-type activities by \$11,455.

Total Liabilities

Total liabilities decreased \$12,258 in governmental activities and decreased \$19,402 in business-type activities.

Total Net Position

Total net position declined \$57,200 in governmental activities and increased \$7,947 in business-type activities.

Total Revenue

Total revenue, as compared to fiscal year end June 30, 2014 increased by \$28,254 in governmental activities and decreased \$98,307 in business-type activities.

Total Expenses

Total expenses as compared to fiscal year end June 30, 2014 increased by \$15,041 in governmental activities and decreased by \$85,981 in the business-type activities. Our total capital assets decreased as well as our total long term debt.

Current Facts and Conditions

The upgrade to the sewer treatment plant is currently still in the design phase. The DEQ has extended the project to a tentative 2017 completion timeline.

The secondary water treatment is still to be completed by 2016 per DEQ.

The Town revised the water rate schedule in January 2013 and started charging by usage along with a base. New rate is \$44.50 plus \$1 per 1000 gallons. No changes were made in 2014.

Contacting the Town's Financial Management This financial report is designed to provide a general overview of the Town's finances, comply with finance-related laws and regulations, and demonstrate the Town's commitment to public accountability. If you have questions about this report or would like to request additional information, contact Gena Berry, Town Clerk, PO Box 339, 104 South Sansome Street, Philipsburg, MT 59858 or call (406) 859-3821.

Town of Philipsburg, Granite County, Montana
MD & A Comparisons
June 30, 2014

Table 1 - Net Position

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
Current and other assets	\$ 206,297	\$ 218,013	\$ (11,716)	\$ 425,202	\$ 480,628	\$ (55,426)
Capital assets	1,488,594	1,546,336	(57,742)	1,293,312	1,249,341	43,971
Total assets	<u>\$ 1,694,891</u>	<u>\$ 1,764,349</u>	<u>\$ (69,458)</u>	<u>\$ 1,718,514</u>	<u>\$ 1,729,969</u>	<u>\$ (11,455)</u>
Long-term debt outstanding	\$ 232,250	\$ 243,906	\$ (11,656)	\$ 188,305	\$ 222,565	\$ (34,260)
Other liabilities	5,540	6,142	(602)	24,263	9,405	14,858
Total liabilities	<u>\$ 237,790</u>	<u>\$ 250,048</u>	<u>\$ (12,258)</u>	<u>\$ 212,568</u>	<u>\$ 231,970</u>	<u>\$ (19,402)</u>
Net investment in capital assets	\$ 1,276,111	\$ 1,324,490	\$ (48,379)	\$ 1,154,923	\$ 1,080,654	\$ 74,269
Restricted	203,039	228,743	(25,704)	38,556	39,021	(465)
Unrestricted (deficit)	(22,049)	(38,932)	16,883	312,467	378,324	(65,857)
Total net position	<u>\$ 1,457,101</u>	<u>\$ 1,514,301</u>	<u>\$ (57,200)</u>	<u>\$ 1,505,946</u>	<u>\$ 1,497,999</u>	<u>\$ 7,947</u>

Table 2 - Changes in Net Position

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
Revenues						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 59,311	\$ 40,013	\$ 19,298	\$ 513,824	\$ 509,000	\$ 4,824
Operating grants and contributions	-	1,064	(1,064)	-	91,668	(91,668)
Capital grants and contributions	-	-	-	-	15,000	(15,000)
<i>General revenues (by major source):</i>						
Property taxes for general purposes	177,475	171,643	5,832	-	-	-
Video poker apportionment	2,200	2,825	(625)	-	-	-
Personal property tax reimbursement	-	423	(423)	-	-	-
Miscellaneous	33,703	33,234	469	5,727	2,190	3,537
Interest/investment earnings	1,585	137	1,448	-	-	-
State entitlement	110,409	105,400	5,009	-	-	-
Licenses and permits	2,240	2,220	20	-	-	-
Contributions & donations	50	1,760	(1,710)	-	-	-
Total revenues	<u>\$ 386,973</u>	<u>\$ 358,719</u>	<u>\$ 28,254</u>	<u>\$ 519,551</u>	<u>\$ 617,858</u>	<u>\$ (98,307)</u>
Program expenses						
General government	\$ 95,802	\$ 109,737	\$ (13,935)	\$ -	\$ -	\$ -
Public safety	92,923	87,426	5,497	-	-	-
Public works	156,252	133,871	22,381	-	-	-
Public health	56	57	(1)	-	-	-
Culture and recreation	77,081	71,147	5,934	-	-	-
Housing and community development	934	934	-	-	-	-
Debt service - interest	10,947	11,472	(525)	-	-	-
Miscellaneous	15,837	20,147	(4,310)	-	-	-
Water	-	-	-	235,136	257,986	(22,850)
Sewer	-	-	-	238,252	256,749	(18,497)
Electric	-	-	-	45,317	89,951	(44,634)
Total expenses	<u>\$ 449,832</u>	<u>\$ 434,791</u>	<u>\$ 15,041</u>	<u>\$ 518,705</u>	<u>\$ 604,686</u>	<u>\$ (85,981)</u>
Increase (decrease) in net position	<u>\$ (62,859)</u>	<u>\$ (76,072)</u>	<u>\$ 13,213</u>	<u>\$ 846</u>	<u>\$ 13,172</u>	<u>\$ (12,326)</u>

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

INDEPENDENT AUDITOR'S REPORT

Mayor and Town Council
Town of Philipsburg
Granite County
Philipsburg, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Philipsburg, Granite County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Philipsburg, Granite County, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2014, the Town of Philipsburg, Granite County, Montana adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 5, 36, and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, on our consideration of the Town of Philipsburg, Granite County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Philipsburg, Granite County, Montana's internal control over financial reporting and compliance.

Derringer, Downey and Associates, CPA's, P.C.

June 26, 2015

Town of Philipsburg, Granite County, Montana
Statement of Net Position
June 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 122,712	\$ 314,855	\$ 437,567
Taxes and assessments receivable, net	52,561	-	52,561
Internal balances	3,780	(3,780)	-
Accounts receivable - net	-	75,571	75,571
Total current assets	<u>\$ 179,053</u>	<u>\$ 386,646</u>	<u>\$ 565,699</u>
Noncurrent assets			
Restricted cash and investments	\$ 27,244	\$ 38,556	\$ 65,800
Capital assets - land	120,462	207,926	328,388
Capital assets - construction in progress	-	105,504	105,504
Capital assets - depreciable, net	1,368,132	979,882	2,348,014
Total noncurrent assets	<u>\$ 1,515,838</u>	<u>\$ 1,331,868</u>	<u>\$ 2,847,706</u>
Total assets	<u>\$ 1,694,891</u>	<u>\$ 1,718,514</u>	<u>\$ 3,413,405</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ -	\$ 11,049	\$ 11,049
Accrued payables	5,540	9,248	14,788
Revenues collected in advance	-	3,966	3,966
Current portion of long-term capital liabilities	9,565	32,435	42,000
Current portion of compensated absences payable	6,314	16,810	23,124
Total current liabilities	<u>\$ 21,419</u>	<u>\$ 73,508</u>	<u>\$ 94,927</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	\$ 11,831	\$ 28,361	\$ 40,192
Noncurrent portion of long-term capital liabilities	202,918	105,954	308,872
Noncurrent portion of compensated absences	1,622	4,745	6,367
Total noncurrent liabilities	<u>\$ 216,371</u>	<u>\$ 139,060</u>	<u>\$ 355,431</u>
Total liabilities	<u>\$ 237,790</u>	<u>\$ 212,568</u>	<u>\$ 450,358</u>
NET POSITION			
Net investment in capital assets	\$ 1,276,111	\$ 1,154,923	\$ 2,431,034
Restricted for debt service	-	38,556	38,556
Restricted for special projects	175,795	-	175,795
Restricted for other purposes	27,244	-	27,244
Unrestricted	(22,049)	312,467	290,418
Total net position	<u>\$ 1,457,101</u>	<u>\$ 1,505,946</u>	<u>\$ 2,963,047</u>

See accompanying Notes to the Financial Statements

Town of Philipsburg, Granite County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and</u>		
				<u>Changes in Net Position</u>		
				<u>Primary Government</u>		<u>Total</u>
		<u>Governmental</u>	<u>Business-</u>			
		<u>Charges for</u>	<u>Activities</u>	<u>type</u>		
		<u>Services</u>		<u>Activities</u>		
Primary government:						
Governmental activities:						
General government	\$ 95,802	\$ 1,310	\$ (94,492)	\$ -	\$ (94,492)	
Public safety	92,923	-	(92,923)	-	(92,923)	
Public works	156,252	25,905	(130,347)	-	(130,347)	
Public health	56	-	(56)	-	(56)	
Culture and recreation	77,081	32,096	(44,985)	-	(44,985)	
Housing and community development	934	-	(934)	-	(934)	
Debt service - interest	10,947	-	(10,947)	-	(10,947)	
Miscellaneous	15,837	-	(15,837)	-	(15,837)	
Total governmental activities	\$ 449,832	\$ 59,311	\$ (390,521)	\$ -	\$ (390,521)	
Business-type activities:						
Water	\$ 235,136	\$ 311,621	\$ -	\$ 76,485	\$ 76,485	
Sewer	238,252	163,713	-	(74,539)	(74,539)	
Electric	45,317	38,490	-	(6,827)	(6,827)	
Total business-type activities	\$ 518,705	\$ 513,824	\$ -	\$ (4,881)	\$ (4,881)	
Total primary government	\$ 968,537	\$ 573,135	\$ (390,521)	\$ (4,881)	\$ (395,402)	
General Revenues:						
Property taxes for general purposes	\$	177,475	\$	-	\$ 177,475	
Video poker apportionment		2,200		-	2,200	
Miscellaneous		33,703		5,727	39,430	
Interest/investment earnings		1,585		-	1,585	
State entitlement		110,409		-	110,409	
Licenses and permits		2,240		-	2,240	
Contributions & donations		50		-	50	
Total general revenues	\$	327,662	\$	5,727	\$ 333,389	
Change in net position	\$	(62,859)	\$	846	\$ (62,013)	
Net position - beginning	\$	1,514,301	\$	1,497,999	\$ 3,012,300	
Restatements		5,659		7,101	12,760	
Net position - beginning - restated	\$	1,519,960	\$	1,505,100	\$ 3,025,060	
Net position - end	\$	1,457,101	\$	1,505,946	\$ 2,963,047	

See accompanying Notes to the Financial Statements

Town of Philipsburg, Granite County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	General	ED Revolving	Other Governmental Funds	Total Governmental Funds
ASSETS				
Current assets:				
Cash and investments	\$ 3,585	\$ 67,948	\$ 51,179	\$ 122,712
Taxes and assessments receivable, net	38,088	-	14,473	52,561
Due from other funds	-	11,170	-	11,170
Total current assets	\$ 41,673	\$ 79,118	\$ 65,652	\$ 186,443
Noncurrent assets:				
Restricted cash and investments	\$ -	\$ -	\$ 27,244	\$ 27,244
Advances to other funds	-	31,796	-	31,796
Total noncurrent assets	\$ -	\$ 31,796	\$ 27,244	\$ 59,040
Total assets	\$ 41,673	\$ 110,914	\$ 92,896	\$ 245,483
Current liabilities:				
Accrued payables	\$ 4,769	\$ -	\$ 771	\$ 5,540
Due to other funds	9,986	-	-	9,986
Total current liabilities	\$ 14,755	\$ -	\$ 771	\$ 15,526
Noncurrent liabilities:				
Advances payable	\$ 29,200	\$ -	\$ -	\$ 29,200
Total noncurrent liabilities	\$ 29,200	\$ -	\$ -	\$ 29,200
Total liabilities	\$ 43,955	\$ -	\$ 771	\$ 44,726
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources	\$ 38,088	\$ -	\$ 14,473	\$ 52,561
Total deferred inflows of resources	\$ 38,088	\$ -	\$ 14,473	\$ 52,561
FUND BALANCES				
Nonspendable	\$ -	\$ -	\$ 27,244	\$ 27,244
Restricted	\$ -	\$ 110,914	\$ 35,576	\$ 146,490
Committed	-	-	14,832	14,832
Unassigned fund balance	(40,370)	-	-	(40,370)
Total fund balance	\$ (40,370)	\$ 110,914	\$ 77,652	\$ 148,196

See accompanying Notes to the Financial Statements

Town of Philipsburg, Granite County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$ 148,196
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,488,594
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	52,561
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(232,250)
Total net position - governmental activities	<u>\$ 1,457,101</u>

See accompanying Notes to the Financial Statements

Town of Philipsburg, Granite County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	<u>General</u>	<u>ED Revolving</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes and assessments	\$ 144,593	\$ -	\$ 57,826	\$ 202,419
Licenses and permits	2,240	-	-	2,240
Intergovernmental	112,609	-	-	112,609
Charges for services	30,991	-	3,165	34,156
Fines and forfeitures	-	-	25,155	25,155
Miscellaneous	2,809	-	86	2,895
Investment earnings	1,585	-	-	1,585
Total revenues	<u>\$ 294,827</u>	<u>\$ -</u>	<u>\$ 86,232</u>	<u>\$ 381,059</u>
EXPENDITURES				
General government	\$ 94,139	\$ -	\$ -	\$ 94,139
Public safety	74,169	-	9,873	84,042
Public works	74,688	-	35,689	110,377
Public health	56	-	-	56
Culture and recreation	51,282	-	23,244	74,526
Debt service - principal	-	-	9,363	9,363
Debt service - interest	-	-	10,947	10,947
Miscellaneous	-	-	15,837	15,837
Capital outlay	800	-	-	800
Total expenditures	<u>\$ 295,134</u>	<u>\$ -</u>	<u>\$ 104,953</u>	<u>\$ 400,087</u>
Net Change in Fund Balance	<u>\$ (307)</u>	<u>\$ -</u>	<u>\$ (18,721)</u>	<u>\$ (19,028)</u>
Fund balances - beginning	\$ (48,750)	\$ 110,914	\$ 103,060	\$ 165,224
Restatements	8,687	-	(6,687)	2,000
Fund balances - beginning, restated	<u>\$ (40,063)</u>	<u>\$ 110,914</u>	<u>\$ 96,373</u>	<u>\$ 167,224</u>
Fund balance - ending	<u>\$ (40,370)</u>	<u>\$ 110,914</u>	<u>\$ 77,652</u>	<u>\$ 148,196</u>

See accompanying Notes to the Financial Statements

Town of Philipsburg, Granite County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

Amounts reported for *governmental activities* in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ (19,028)

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

- Capital assets purchased	800
- Depreciation expense	(58,542)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred inflows)	5,914
--	-------

The change in compensated absences is shown as an expense in the Statement of Activities	(1,366)
--	---------

Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:

- Long-term debt principal payments	9,363
-------------------------------------	-------

Change in net position - Statement of Activities	\$ <u>(62,859)</u>
---	---------------------------

See accompanying Notes to the Financial Statements

Town of Philipsburg, Granite County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Non-major Enterprise</u>	<u>Totals</u>
ASSETS				
Current assets:				
Cash and investments	\$ 57,482	\$ 257,373	\$ -	\$ 314,855
Accounts receivable - net	46,264	29,307	-	75,571
Total current assets	<u>\$ 103,746</u>	<u>\$ 286,680</u>	<u>\$ -</u>	<u>\$ 390,426</u>
Noncurrent assets:				
Restricted cash and investments	\$ 38,556	\$ -	\$ -	\$ 38,556
Advances to other funds	-	31,000	-	31,000
Capital assets - land	21,327	186,599	-	207,926
Capital assets - construction in progress	105,504	-	-	105,504
Capital assets - depreciable, net	355,950	603,629	20,303	979,882
Total noncurrent assets	<u>\$ 521,337</u>	<u>\$ 821,228</u>	<u>\$ 20,303</u>	<u>\$ 1,362,868</u>
Total assets	<u>\$ 625,083</u>	<u>\$ 1,107,908</u>	<u>\$ 20,303</u>	<u>\$ 1,753,294</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 11,049	\$ -	\$ -	\$ 11,049
Accrued payables	3,817	4,420	1,011	9,248
Due to other funds	-	-	1,184	1,184
Revenues collected in advance	2,405	1,561	-	3,966
Current portion of long-term capital liabilities	32,435	-	-	32,435
Current portion of compensated absences payable	5,834	9,060	1,916	16,810
Total current liabilities	<u>\$ 55,540</u>	<u>\$ 15,041</u>	<u>\$ 4,111</u>	<u>\$ 74,692</u>
Noncurrent liabilities:				
Advances payable	\$ 31,000	\$ 2,596	\$ -	\$ 33,596
Noncurrent portion of long-term liabilities	16,416	10,205	1,740	28,361
Noncurrent portion of long-term capital liabilities	105,954	-	-	105,954
Noncurrent portion of compensated absences	1,854	2,497	394	4,745
Total noncurrent liabilities	<u>\$ 155,224</u>	<u>\$ 15,298</u>	<u>\$ 2,134</u>	<u>\$ 172,656</u>
Total liabilities	<u>\$ 210,764</u>	<u>\$ 30,339</u>	<u>\$ 6,245</u>	<u>\$ 247,348</u>
NET POSITION				
Net investment in capital assets	\$ 344,392	\$ 790,228	\$ 20,303	\$ 1,154,923
Restricted for debt service	38,556	-	-	38,556
Unrestricted	31,371	287,341	(6,245)	312,467
Total net position	<u>\$ 414,319</u>	<u>\$ 1,077,569</u>	<u>\$ 14,058</u>	<u>\$ 1,505,946</u>
Total liabilities and net position	<u>\$ 625,083</u>	<u>\$ 1,107,908</u>	<u>\$ 20,303</u>	<u>\$ 1,753,294</u>

See accompanying Notes to the Financial Statements

Town of Philipsburg, Granite County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Non-major Enterprise</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$ 311,621	\$ 163,713	\$ 38,490	\$ 513,824
Miscellaneous revenues	2,928	2,799	-	5,727
Total operating revenues	<u>\$ 314,549</u>	<u>\$ 166,512</u>	<u>\$ 38,490</u>	<u>\$ 519,551</u>
OPERATING EXPENSES				
Personal services	\$ 95,400	\$ 111,246	\$ 25,626	\$ 232,272
Supplies	35,196	10,673	1,579	47,448
Purchased services	57,437	89,728	16,194	163,359
Depreciation	40,210	26,605	1,918	68,733
Total operating expenses	<u>\$ 228,243</u>	<u>\$ 238,252</u>	<u>\$ 45,317</u>	<u>\$ 511,812</u>
Operating income (loss)	<u>\$ 86,306</u>	<u>\$ (71,740)</u>	<u>\$ (6,827)</u>	<u>\$ 7,739</u>
NON-OPERATING REVENUES (EXPENSES)				
Debt service interest expense	\$ (6,893)	\$ -	\$ -	\$ (6,893)
Total non-operating revenues (expenses)	<u>\$ (6,893)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,893)</u>
Change in net position	<u>\$ 79,413</u>	<u>\$ (71,740)</u>	<u>\$ (6,827)</u>	<u>\$ 846</u>
Net Position - Beginning of the year	\$ 332,001	\$ 1,145,866	\$ 20,132	\$ 1,497,999
Restatements	2,905	3,443	753	7,101
Net Position - Beginning of the year - Restated	<u>\$ 334,906</u>	<u>\$ 1,149,309</u>	<u>\$ 20,885</u>	<u>\$ 1,505,100</u>
Net Position - End of the year	<u>\$ 414,319</u>	<u>\$ 1,077,569</u>	<u>\$ 14,058</u>	<u>\$ 1,505,946</u>

See accompanying Notes to the Financial Statements

Town of Philipsburg, Granite County
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2014

Business - Type Activities- Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Non-major Enterprise</u>	<u>Totals</u>
Cash flows from operating activities:				
Cash received from providing services	\$ 312,930	\$ 172,227	\$ 38,490	\$ 523,647
Cash received from miscellaneous sources	2,928	2,799	-	5,727
Cash payments to suppliers	(24,147)	(10,673)	(1,579)	(36,399)
Cash payments for professional services	(57,437)	(89,728)	(16,194)	(163,359)
Cash payments to employees	(94,614)	(108,168)	(26,508)	(229,290)
Net cash provided (used) by operating activities	<u>\$ 139,660</u>	<u>\$ (33,543)</u>	<u>\$ (5,791)</u>	<u>\$ 100,326</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	\$ (110,304)	\$ (2,400)	\$ -	\$ (112,704)
Principal paid on debt	(30,298)	-	-	(30,298)
Interest paid on debt	(6,893)	-	-	(6,893)
Net cash provided (used) by capital and related financing activities	<u>\$ (147,495)</u>	<u>\$ (2,400)</u>	<u>\$ -</u>	<u>\$ (149,895)</u>
Cash flows from non-capital financing activities:				
Cash received/paid from advances	\$ (16)	\$ 18,483	\$ 1,184	\$ 19,651
Net cash provided (used) from non-capital financing activities	<u>\$ (16)</u>	<u>\$ 18,483</u>	<u>\$ 1,184</u>	<u>\$ 19,651</u>
Net increase (decrease) in cash and cash equivalents	\$ (7,851)	\$ (17,460)	\$ (4,607)	\$ (29,918)
Cash and cash equivalents at beginning	103,889	274,833	4,607	383,329
Cash and cash equivalents at end	<u>\$ 96,038</u>	<u>\$ 257,373</u>	<u>\$ -</u>	<u>\$ 353,411</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 86,306	\$ (71,740)	\$ (6,827)	\$ 7,739
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	40,210	26,605	1,918	68,733
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(1,096)	6,953	-	5,857
Increase in accounts payable	11,049	-	-	11,049
Increase in compensated absences	830	1,717	592	3,139
Increase in revenues collected in advance	2,405	1,561	-	3,966
(Decrease) increase in accrued payroll	(44)	1,361	(1,474)	(157)
Net cash provided (used) by operating activities	<u>\$ 139,660</u>	<u>\$ (33,543)</u>	<u>\$ (5,791)</u>	<u>\$ 100,326</u>

See accompanying notes to the financial statements

Town of Philipsburg, Granite County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and short-term investments	\$ 129,774
Total assets	<u>\$ 129,774</u>
LIABILITIES	
Warrants payable	\$ 101,390
Due to others	<u>28,384</u>
Total liabilities	<u>\$ 129,774</u>

See accompanying Notes to the Financial Statements

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard is effective for fiscal year ending June 30, 2014.

Financial Reporting Entity

In determining the financial reporting entity, the Town complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, and includes all component units of which the Town appointed a voting majority of the component units' board; the Town is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the Town complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the Town.

Primary Government

The Town is a political subdivision of the State of Montana governed by an elected Mayor and Council duly elected by the registered voters of the Town. The Town is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body (b) It is legally separate and (c) It is fiscally independent from the State and other local governments.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business-type activities.

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function. The Town does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Town generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting Town are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/ expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/ expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The Town defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be "upon receipt." Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Major Funds:

The Town reports the following major governmental funds:

General Fund – This is the Town’s primary operating fund and it accounts for all financial resources of the Town except those required to be accounted for in other funds.

ED Revolving Fund – A special revenue fund that is used to account for the lending and repayment of monies loaned to businesses and individuals for projects approved by the Town’s Community Development department.

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund’s principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources as they are needed.

Major Funds:

The Town reports the following major proprietary funds:

Water Fund – An enterprise fund that accounts for the activities of the Town’s water distribution operations.

Sewer Fund – An enterprise fund that accounts for the activities of the Town’s sewer collection and treatment operations and includes the storm sewer system.

TOWN OF PHILIPSBURG
 GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2014, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash in banks:	
Demand deposits	\$ 578
Savings deposits	173,468
Time deposits	459,095
Total	\$ 633,141

Credit Risk

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

(a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

(b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or

(c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):

- (i) federal home loan bank;
- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

TOWN OF PHILIPSBURG
 GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Section 7-6-202, MCA, as amended, now limits authorized investments in certain securities that previously were permissible investments. The amendment does not apply to and does not require the sale of securities that were legal investments before the effective date of this act. However, the investments reported as collateralized mortgage obligations above are not authorized investments at the current time.

The government has no investment policy that would further limit its investment choices.

The government has no investments that require credit risk disclosure.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2014 \$363,629 of the government's bank balance of \$614,207 was exposed to custodial credit risk as follows:

	June 30, 2014
<u>Depository Account</u>	<u>Balance</u>
Insured	\$ 250,578
- Collateral held by the pledging bank's trust department but not in the Town's name.	300,000
Uninsured and uncollateralized deposits	63,629
Total deposits and investments	\$ <u><u>614,207</u></u>

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

- (a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- (b) 100% if the institution in which the deposit is made has a net worth of total assets ration of less than 6%.

The amount of collateral held for Town deposits at June 30, 2014, equaled or exceeded the amount required by State statutes.

Cash equivalents

For purposes of the statement of cash flows, the enterprise funds consider all funds (including restricted assets) held in the Town's cash management pool to be cash equivalents.

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the Town as of June 30, 2014. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Description</u>	<u>Amount</u>
Permanent Fund Endowment	\$ 27,244
Future Debt Service	<u>38,556</u>
Total	<u>\$ 65,800</u>

NOTE 4. RECEIVABLES

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Property tax levies are set on or before the second Monday in August, in connection with the budget process. Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are due November 30 and the following May 31. Personal Property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing, the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

NOTE 5. INVENTORIES

The costs of inventories is recorded as an expenditure when purchased.

NOTE 6. CAPITAL ASSETS

The Town's assets are capitalized at historical cost or estimated historical cost. Town policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

TOWN OF PHILIPSBURG
 GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Buildings	30 – 60 years
Improvements	30 – 60 years
Equipment	5 – 60 years
Infrastructure	50 – 65 years
Source of Supply	30 years
Transmission/Distribution	20-40 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Town has not yet included the value of all infrastructure into the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets was as follows:

Governmental activities:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:			
Total capital assets not being depreciated	\$ 120,462	\$ -	\$ 120,462
Other capital assets:			
Buildings	\$ 469,641	\$ -	\$ 469,641
Improvements other than buildings	91,249	-	91,249
Machinery and equipment	693,763	800	694,563
Infrastructure	<u>3,221,096</u>	<u>-</u>	<u>3,221,096</u>
Total other capital assets at historical cost	\$ 4,475,749	\$ 800	\$ 4,476,549
Less: accumulated depreciation	<u>\$ (3,049,875)</u>	<u>\$ (58,542)</u>	<u>\$ (3,108,417)</u>
Total	<u>\$ 1,546,336</u>	<u>\$ (57,742)</u>	<u>\$ 1,488,594</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:

General government	\$ 297
Public safety	8,881
Public works	45,875
Culture and recreation	2,555
Housing and community development	<u>934</u>
Total governmental activities depreciation expense	<u>\$ 58,542</u>

TOWN OF PHILIPSBURG
 GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

A summary of changes in business-type capital assets was as follows:

Business-type activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 207,926	\$ -	\$ 207,926
Construction in progress	-	105,504	105,504
Total capital assets not being depreciated	<u>\$ 207,926</u>	<u>\$ 105,504</u>	<u>\$ 313,430</u>
Other capital assets:			
Buildings	\$ 107,253	\$ -	\$ 107,253
Machinery and equipment	348,875	7,200	356,075
Source Supply	83,036	-	83,036
Transmission and distribution	2,916,923	-	2,916,923
Total other capital assets at historical cost	\$ 3,456,087	\$ 7,200	\$ 3,463,287
Less: accumulated depreciation	\$ (2,414,672)	\$ (68,733)	\$ (2,483,405)
Total	<u>\$ 1,249,341</u>	<u>\$ 43,971</u>	<u>\$ 1,293,312</u>

NOTE 7. LONG TERM DEBT OBLIGATIONS

In the governmental-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums are expensed at the date of sale.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Loan/Contracted debt	\$ 221,846	\$ -	\$ (9,363)	\$ -	\$ 212,483	\$ 9,565
Compensated absences	6,570	1,366	-	-	7,936	6,314
Other post-employment benefits*	15,490	-	-	(3,659)	11,831	-
Total	<u>\$ 243,906</u>	<u>\$ 1,366</u>	<u>\$ (9,363)</u>	<u>\$ (3,659)</u>	<u>\$ 232,250</u>	<u>\$ 15,879</u>

*See Note 8

In prior years the general fund was used to liquidate compensated absences and claims and judgments.

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Business-type Activities:

	Balance				Balance	Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2014</u>	<u>One Year</u>
Revenue bonds	\$ 168,687	\$	\$ (30,298)	\$	\$ 138,389	\$ 32,435
Compensated absences	18,416	3,139			21,555	16,810
Other post-employment benefits*	35,462			(7,101)	28,361	-
Total	\$ 264,021	\$ 3,139	\$ (30,298)	\$ (7,101)	\$ 188,305	\$ 49,245

Revenue Bonds - The Town also issues bonds where the Town pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding, at year-end were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Balance June 30, 2014</u>
Water	10/08/98	6%	20 yrs	10/10/18	\$ 260,000	\$ 64,069
Drinking Water- Revolving Fund	10/12/99	3%	20 yrs	07/01/19	<u>238,322</u>	<u>74,320</u>
Total:					\$ <u>498,322</u>	\$ <u>138,389</u>

Reported in business-type activities.

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The Town was in compliance with applicable covenants as of June 30, 2014.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 32,435	\$ 5,526
2016	34,660	3,896
2017	35,961	2,175
2018	16,013	905
2019	14,000	475
2020	5,320	80
Total	\$ <u>138,389</u>	\$ <u>13,057</u>

TOWN OF PHILIPSBURG
 GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Loans/Contracted Debt

Loans/contracted debts outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
Firehall Loan	3/24/09	5%	20 yrs	3/24/29	\$ <u>252,000</u>	\$ <u>212,483</u>
Reported in the governmental activities.						

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 9,565	\$ 10,519
2016	10,050	10,034
2017	10,558	9,526
2018	11,093	8,991
2019	11,654	8,430
2020	12,244	7,840
2021	12,864	7,220
2022	13,515	6,569
2023	14,199	5,885
2024	14,918	5,166
2025	15,673	4,411
2026	16,467	3,617
2027	17,300	2,784
2028	18,176	1,908
2029	19,096	988
2030	5,111	134
Total	\$ <u>212,483</u>	\$ <u>94,022</u>

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. It is the Town's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from Town service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with governmental fund-type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective proprietary fund.

TOWN OF PHILIPSBURG
 GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy. The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

Funding Status and funding Progress. The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$	40,192
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	40,192
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	212,267
UAAL as a percentage of covered payroll		18.93%

Annual OPEB Cost and Net OPEB Obligation. The government's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

TOWN OF PHILIPSBURG
 GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Annual Required Contribution (ARC)	\$	13,026
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	13,026
Contributions made	\$	-
Increase in net OPEB obligation	\$	13,026
Net OPEB obligation - beginning of year	\$	50,952
Restatement	\$	(10,760)
Net OPEB obligation - end of year	\$	40,192

Actuarial Methods and Assumptions. The following actuarial methods and assumptions were used:

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	1.00%

Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2015	6.40%
2016	6.20%
2017	6.00%
2018	6.40%
2019	6.80%
2020	6.90%
2021	6.70%
2022 and thereafter	6.90%

NOTE 9. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2014, was as follows:

<u>Purpose</u>	<u>Due to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Cover negative cash balance	ED Revolving – Major governmental	General-Major governmental	\$ 9,986
Cover negative cash balance	ED Revolving – Major governmental	Electrical – Nonmajor gproprietary	<u>1,184</u>
Total			<u>\$ 11,170</u>

TOWN OF PHILIPSBURG
 GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Advances to/from other funds:			
<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Land purchase	ED Revolving – Major governmental	General – Major governmental	\$ 26,316
Land purchase	ED Revolving– Major governmental	General – Major Governmental	2,884
Land purchase	ED Revolving– Major governmental	Sewer – Major proprietary	2,596
Emergency PRV repair	Sewer – Major proprietary	Water – Major proprietary	<u>31,000</u>
Total			<u>\$ 62,796</u>

NOTE 10. STATE-WIDE RETIREMENT PLANS

All full-time Town employees are covered by the Montana Public Employees Retirement System (PERS). The plan is established by State law and administered by the State of Montana. The plan is cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014 for the defined benefit plans, were:

<u>PERS**</u>	
Employer	8.07%
Employee	7.90%*
State	0.10%

* For PERS members hired before 7/1/2011 that rate is 7.9%

** For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account.

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the Town’s financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling: Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

TOWN OF PHILIPSBURG
 GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

The Town's contributions for the years ended June 30, 2012, 2013, and 2014, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>
2012	\$ 17,089
2013	\$ 15,194
2014	\$ 19,552

NOTE 11. LOCAL RETIREMENT PLANS

Fire Department Relief Association Disability and Pension Fund

Town volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by State Law. The Association is managed by a Board of Trustees made up of members of the fire department.

A member of a volunteer fire department who has served 20 years or more is entitled to benefits regardless of age. Volunteer serving less than 20 years but more than 10 years may receive reduced benefits. The amount of the pension benefits are set by the Association's Board of Trustees.

NOTE 12. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

For committed fund balance the government's highest level of decision-making authority is and the formal action that is required to be taken to establish, modify or rescind a fund balance commitment is required to be set at a board meeting.

The government considers restricted amounts to have been spent first when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Nonspendable Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
All other aggregate	\$ <u>27,244</u>	Permanent fund

TOWN OF PHILIPSBURG
 GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
ED Revolving	\$ 110,914	General Government
All other Aggregate:	986	General Government
	7,601	Culture and Recreation
	20,339	Public Safety
	<u>6,650</u>	Public Works
Total	<u>\$ 146,490</u>	

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All other Aggregate:	<u>\$ 14,832</u>	Public Works

NOTE 13. DEFICIT FUND BALANCES/NET POSITION

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
General	\$ <u>40,370</u>	The Town has outstanding payables totaling \$43,000 and only \$3,000 in cash to cover those payables.	Actively monitoring the expenditures and cuts to expenditures to increase cash flow.

NOTE 14. RESTATEMENTS

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General Fund	\$ 6,687	To close out funds with no activity
General Fund	2,000	To correct cash balance for prior year interest
PERS	783	To close out funds with no activity
Group Insurance	(3,223)	To close out funds with no activity
Park Contributions	<u>(4,247)</u>	To close out funds with no activity
Total Governmental Funds	<u>\$ 2,000</u>	
Water	\$ 2,905	OPEB adjustment
Sewer	3,443	OPEB adjustment
Electric	<u>753</u>	OPEB adjustment
Total Proprietary Funds	<u>\$ 7,101</u>	
Governmental Activities	<u>3,659</u>	OPEB adjustment
	<u>\$ 12,760</u>	

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 15. SERVICES PROVIDED FROM OTHER GOVERNMENTS

County Provided Services

The Town is provided various financial services by Granite County. The County also serves as cashier and treasurer for the Town for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in the County. The collections made by the County on behalf of the Town are accounted for in an agency fund in the Town's name and are periodically remitted to the Town by the County Treasurer. No service charges have been recorded by the Town or the County.

NOTE 16. RISK MANAGEMENT

The Town faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the Town has no coverage for potential losses from environmental damages.

Insurance Pools:

The City participates in the state-wide public safety risk pool, Montana Municipal Insurance Authority for workers' compensation.

In 1986, the Town joined together with other Montana cities to form the Montana Municipal Insurance Authority which established a workers' compensation plan and a tort liability plan. Both public Town risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$3.750 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The Town pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

Separate audited financial statements are available from the Montana Municipal Insurance Authority.

TOWN OF PHILIPSBURG
GRANITE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 17. SUBSEQUENT EVENTS

During fiscal year ending June 30, 2014, the Town started construction of a UV disinfection system to treat the Town's water. This water project was to be funded using Treasure State Endowment Program (TSEP) grants. Due to issues between the engineers and contractor, the TSEP agreement was reissued in 2015 and funds would not be received until the end of the project. To continue with the construction of the UV system, the Town was able to obtain an SRF loan totaling \$424,000 and was approved for a \$100,000 DRNC grant. In addition to the loan and grant, the Town issued a refunding bond totaling \$70,000 to pay off the pre-existing revenue bond.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Town of Philipsburg, Granite County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	General			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL
			(BUDGETARY	BUDGET
			See Note A	
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 150,379	\$ 150,379	\$ 144,593	\$ (5,786)
Licenses and permits	2,100	2,100	2,240	140
Intergovernmental	111,888	111,888	112,609	721
Charges for services	30,370	30,370	30,991	621
Fines and forfeitures	100	100	-	(100)
Miscellaneous	300	300	2,809	2,509
Investment earnings	1,600	1,600	1,585	(15)
Amounts available for appropriation	\$ 296,737	\$ 296,737	\$ 294,827	\$ (1,910)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 93,884	\$ 93,884	\$ 94,139	\$ (255)
Public safety	74,331	74,331	74,169	162
Public works	63,825	63,825	74,688	(10,863)
Public health	60	60	56	4
Culture and recreation	49,350	49,350	51,282	(1,932)
Capital outlay	800	800	800	-
Total charges to appropriations	\$ 282,250	\$ 282,250	\$ 295,134	\$ (12,884)
Net change in fund balance			\$ (307)	
Fund balance - beginning of the year			\$ (48,750)	
Restatements			8,687	
Fund balance - beginning of the year - restated			\$ (40,063)	
Fund balance - end of the year			\$ (40,370)	

Town of Philipsburg, Granite County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2011	\$ -	\$ 25,284	\$ 25,284	0%	\$ 316,062	8.0%
July 1, 2012	\$ -	\$ 40,192	\$ 40,192	0%	\$ 212,267	18.9%

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Mayor and Town Council
Town of Philipsburg
Granite County
Philipsburg, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Philipsburg, Granite County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Philipsburg's basic financial statements and have issued our report thereon dated June 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Philipsburg, Granite County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Philipsburg, Granite County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Philipsburg's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness as identified as item 2014-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies as identified as item 2014-002 through 2014-005.

2014-001 Cash not reconciled

Condition:

The Town does not reconcile cash on a monthly basis and has not properly reconciled cash for several years. At June 30, 2014 the Town had overstated its cash balance by \$18,991 due to unreconciled amounts from years prior to 2012. This amount is the same reconciliation items from 2013. The finding is a repeat finding and has been an ongoing issue of the Town.

Context:

As a part of the substantive procedure for cash, we re-perform the cash reconciliation and verified the cash balance reported by the Town in the financial statements. We found the Town had reported a cash balance that was higher than the bank balance by \$18,991 due to unreconciled amounts from years prior to 2012.

Criteria:

Adequate internal control requires that the Town reconcile cash monthly. Cash reconciliations should be reviewed by an employee other than the preparer.

Effect:

As of year-end, the Town had overstated cash by \$18,991 and was unable to determine the extent of errors occurring in the prior periods. It also does not have adequate review of cash reconciliations.

Cause:

The Town has not implemented a monthly cash reconciliation process requiring the procedure to be performed and reviewed for accuracy.

Recommendation:

The Town should balance cash immediately and implement a cash reconciliation review process by an employee other than the cash reconciliation preparer. Monthly, the Town Clerk should present to the City Council the reconciliation.

Auditee Response:

The Town will record an entry to adjust the carry forward variance from prior years, and implement internal controls to perform a monthly cash reconciliation that will be reviewed at the board meetings.

2014-002 Financial Results in Electric Fund

Condition:

The Electric Fund continued to have an operating loss as well as zero cash balance with which to operate for FY14. This is a repeat finding from FY 13.

Context:

While evaluating the changes in fund balances from year to year it was noted that the Electric Fund has had an operating loss for at least the past four fiscal years now. Looking at the fund's overall activities shows that the fund no longer has any cash to cover its continued operating losses.

Criteria:

Continued operating losses and decreasing cash are factors that indicate poor financial health in the Electric Fund.

Effect:

The Electric fund does not receive adequate revenues to support its expenditures. A continued operating loss has caused the Electric Fund to no longer have a cash balance. The fund does not currently have a deficit fund balance; however the positive fund balance of \$14,058 is only due to the \$20,303 in capital assets. The fund will end up with a deficit cash and fund balance in the near future with continued operating losses.

Cause:

The Electric Fund has not maintained adequate revenues to support expenses from FY11 to FY14.

Recommendation:

The Town should evaluate revenues and expenses in the Electric Fund to prevent future operating losses. It should design and implement a recovery plan for the Electric Fund immediately.

Auditee Response:

The Town plans to implement a review of the fund at the Council meetings, and will look at options to reduce expenditures and possibly increase rates.

2014-003 Employer contributions not paid timely

Condition:

The Town had unpaid payroll tax payments to the IRS and State of Montana for federal and state withholding taxes totaling \$27,827 at June 30, 2014. These payments were for payroll periods from March 2014 through the end of June 2014.

Context:

During substantive testing of the employer contributions for the final pay periods in the second quarter, we noted there were federal and state withholding tax payments that were not paid as of June 30, 2014. Per further inquiry, we found the Town had received IRS notices for unfiled 941 employer's quarterly tax returns.

Criteria:

An adequate internal control system would ensure that the required payroll payments are made timely.

Effect:

The Town could be required to pay more for penalties assessed on late payments.

Cause:

The Town does not have a formal internal control process or policy in place requiring the payroll payments to be paid after payroll is processed.

Recommendation:

We recommend the Town implement internal controls requiring the payroll payments be made immediately after the payroll is processed and proof of payments reviewed with the Council.

Auditee Response:

The Town has worked with the IRS and DOR in catching up on the payments outstanding, and currently are update on the payments. We will also implement procedures to ensure the payments are made timely and the proper reports are completed.

2014-004 Grant Reimbursement Requests

Condition:

Grant reimbursement requests are not being submitted timely. At June 30, 2014 the Water Fund was still owed \$105,054 in TSEP grant monies.

Context:

During our tests on the collectability of the due from other governments in the Water Fund, we found that the receivable balance totaling \$105,054 had not been received in the subsequent months. Per an inquiry we found reimbursement requests were not submitted and a new contract was issued in October 2014 for the TSEP Grant.

Criteria:

Many grant programs are funded on an expenditure-drive basis. The allowable costs are required to be incurred before the reimbursement monies are sent to the Town. Timely submission of cash reimbursements for federal and state grants is needed to have adequate cash inflows to operate.

Effect:

The Town grants monies were put on hold until the completion of the project and therefore due from other governments and intergovernmental revenue were overstated. This has been corrected for the audit report.

Cause:

The Town does not have internal controls in place requiring the reimbursement requests to be submitted in a timely manner to receive the monies.

Recommendation:

We recommend the Town implement procedures to ensure cash reimbursement requests be submitted timely to ensure the revenues and cash are received in the period or shortly after the expenditures occur.

2014-005 Non-payment on interfund advances**Condition:**

The Town failed to make the payment on the ED Revolving Fund to the General Fund advance. This advance also earns one percent interest annually, and the Town did not capitalize this interest.

Context:

During our testing of long-term debt, we noted that the balance of the advance had not changed and no principal payments from the General Fund were recorded and interest was not capitalized.

Criteria:

The contractual agreements state “monthly payments are due by the 15th day of each month until the loan is paid in full.”

Effect:

The Town did not make payments or capitalize interest on interfund advances. The Town held, as of the beginning of fiscal year 2014, \$36,936 of advances from the ED Revolving fund to the General Fund. The advance earns interest at one percent per year, for a total of \$369 of interest.

Cause:

The Town does not have controls in place to ensure the advance is correctly repaid.

Recommendation:

We recommend the Town implement controls to ensure payments are properly made and recorded.

Auditee Response:

The Town plans to implement controls requiring the review of advances to ensure the payments are budgeted for and are being made with proper reporting of payments.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Philipsburg’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-006.

2014-006 Expenditures Budget

Condition:

The Town exceeded its expenditures budgetary authority in the General and Electric funds during 2014, by an amount totaling \$12,884 and \$4,831.

Context:

During our review of the Town budgets, we found that the Town exceeded its budget in the General and Electric funds during fiscal year 2014. Per further review we did not find any budget resolutions indicating an increase in budgetary authority.

Criteria:

MCA 7-6-4005 states “Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund. A local government official who violates subsection is liable for the amount of the excess disbursement, expenditure, or obligation personally. The subsequent claims approval process may not be considered as the making of a disbursement or an expenditure or as incurring an obligation and does not otherwise limit or mitigate the local government official's personal liability.”

Effect:

The Town is not in compliance with the laws and regulations of the budgets (MCA 7-6-4005).

Cause:

The Town did not fully amend the expenditures budget for increases in expenditures due to unanticipated revenues.

Recommendation:

We recommend the Town activity monitor the resources available, and amend the budget to the full amount of the expenditures to ensure the Town remains in compliance.

Auditee Response:

The Town plans to implement the recommendation above, and actively monitor the expenditures to ensure the Town is in compliance and the budget is amended properly.

Town of Philipsburg's Response to Findings

Town of Philipsburg's response to the findings identified in our audit is described above. Town of Philipsburg's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Derringer, Downey and Associates, CPA's, P.C.

June 26, 2015

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Mayor and Town Council
Town of Philipsburg
Granite County
Philipsburg, Montana

The prior audit report contained four recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Cash Reconciliation	Repeated
Financial Results Electric Fund	Repeated
Tax Distribution	Implemented
Budgetary Case Reserve Implemented	Implemented

Denning, Downey and Associates, CPA's, P.C.

June 26, 2015